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AT HOME CORP

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SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K/A

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934
FOR THE FISCAL YEAR ENDED **DECEMBER 31, 1998**

COMMISSION FILE NO. 000-22697

AT HOME CORPORATION
(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

DELAWARE	77-0408542
(STATE OR OTHER JURISDICTION OF INCORPORATION OR ORGANIZATION)	(I.R.S. EMPLOYER IDENTIFICATION NUMBER)

425 BROADWAY STREET
REDWOOD CITY, CA 94063
(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES, INCLUDING ZIP CODE)

(650) 569-5000
(REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE)

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:
NONE

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT:
Series A Common Stock

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes {X} No { }

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K/A or any amendment to this Form 10-K/A. {X}

	AS OF JANUARY 31, 1999
Aggregate market value of the voting stock held by non-affiliates of the Registrant based on the closing bid price of such stock:	$4,698,327,500
Number of shares of Series A Common Stock outstanding:	106,355,301
Number of shares of Series B Common Stock outstanding:	15,400,000
Number of shares of Series K Common Stock outstanding:	2,609,707

Unless otherwise stated, information in the originally filed Form 10-K is presented as of the original filing date, and has not been updated in this amended filing.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's proxy statement for the 1999 annual meeting of stockholders to be held in May 1999 are incorporated by reference into Part III of this annual report on Form 10-K/A where indicated.

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PART I

ITEM 1.

BUSINESS

This annual report contains forward-looking statements relating to future events or financial results, such as statements indicating that "we believe," "we expect" or "we anticipate" that certain events may occur or certain trends may continue, and similar statements relating to future events or financial results. These forward-looking statements are subject to material risks and uncertainties as indicated under the caption "Risk Factors." Actual results could vary materially as a result of a number of factors including those set

forth in "Risk Factors" and elsewhere in this report.

We are the leading provider of broadband Internet services over the cable television infrastructure to consumers. By virtue of our relationships with 18 cable companies in North America and Europe, we have access to approximately 58.7 million homes, which includes exclusive access to over 50% of the households in the United States and Canada. We also provide broadband Internet services to businesses over both the cable television infrastructure and digital telecommunications lines.

Our primary offering, the @Home service, allows residential subscribers to connect their personal computers via cable modems to a high-speed Internet backbone network developed and managed by us. This service enables subscribers to receive the "@Home Experience," which includes Internet service over hybrid fiber co-axial, or HFC, cable at transmission speeds up to 100 times faster than typical dial-up connections, "always on" connection and rich multimedia programming through our broadband Internet portal. The technology foundation of the @Home Experience is our scalable, distributed, intelligent network architecture (our broadband network), a "parallel Internet" that optimizes traffic routing, improves security and consistency of service, and facilitates end-to-end network management, enhancing our ability to address performance bottlenecks before they affect the user experience.

Our @Media group has established the @Home launch screen as the leading broadband Internet portal, providing a gateway to compelling multimedia and electronic commerce offerings on the Internet. To date, the @Home Experience has generated greater page views per subscriber than are reported by the leading narrowband Internet portal companies. Our @Media group works with content providers to facilitate the creation of rich multimedia broadband content delivered through the @Home portal and to facilitate online transactions and services for @Home subscribers. Multimedia content offerings include on-demand video clips from partners such as Bloomberg and CNN Interactive, on-demand music and CD previews provided by our Tune-In service and low-latency multiplayer gaming from SegaSoft. Electronic commerce partners include Amazon.com, the leading online bookseller, BuyDirect.com, an online software distributor, and Travelocity, a leading online travel site. Our @Media group also sells advertising on a cost per thousand impressions, or CPM, basis as well as on a sponsorship basis. We had 57 advertisers in the fourth quarter of 1998, including Ford, Godiva, Intel, Kodak, Lands' End, Lexus, Mercedes Benz and Starbucks.

For businesses, our @Work services provide a platform for Internet, intranet and extranet connectivity solutions and networked business applications over both cable infrastructure and digital telecommunications lines. In order to accelerate deployment of the @Work connectivity and hosting solutions into major U.S. metropolitan areas, we have established strategic relationships with Teleport Communications Group, the country's largest competitive local exchange carrier and a subsidiary of AT&T, Northpoint, a provider of digital subscriber line services to businesses, and Exodus, a provider of Internet hosting and network management services. By combining our broadband distributed networkarchitecture with cable, telephone and technology relationships, the @Work services provide a compelling platform for nationwide delivery of network-based business applications. We have developed this platform at a low incremental cost by leveraging our existing broadband network investment. We currently provide

@Work services to nearly 1,700 businesses.

We have entered into distribution arrangements for our @Home service with 16 cable companies in North America whose cable systems pass approximately 57.3 million homes -- Tele-Communications, Inc., Cablevision Systems Corp., Comcast Corporation, Cox Communications, Inc., Rogers Cablesystems Limited, Shaw Cablesystems Ltd., Bresnan Communications Company, Century Communications Corp., Cogeco

Cable, Inc., Garden State Cable, Insight Communications, InterMedia Partners IV L.P., Jones Intercable, Inc., Lenfest Communications Inc., Marcus Cable Operating Company, L.P. and Midcontinent Cable Co. Some of these distribution arrangements are subject to the completion of definitive agreements. As of December 31, 1998, approximately 13.2 million of the homes served by these cable partners were passed by upgraded two-way HFC cable, and we believe that our cable partners will complete the upgrade of systems passing a majority of their homes within four years. In order to shorten time to market for cable operators, we provide a turnkey solution, which includes not only a technology platform and a national brand, but also ongoing marketing, customer service, billing and product development support. As of December, 1998, we had launched the @Home service through our cable partners in portions of 59 cities and communities in the United States and Canada and have approximately 331,000 subscribers.

As part of our strategy to expand into international markets, we have entered into agreements for the distribution of our @Home service by Edon and Palet Kabelcom in the Netherlands. We have entered into an agreement with Intel to create a limited partnership whereby Intel will invest $20 million in @Home Benelux, which operates under the trade name @Home Nederland, to help speed the deployment of broadband services in the Netherlands. We have also initiated distribution programs with leading consumer electronics retailers and computer manufacturers, including CompUSA, Compaq and Dell, to facilitate the sale of the @Home service and cable modems compliant with the new DOCSIS cable modem standard. In addition, we are working with CableLabs and National Digital Television Center, a subsidiary of TCI, to develop advanced digital set-top boxes to provide broadband Internet access via television sets and to accelerate transformation of the Internet into a mass medium.

RECENT EVENTS

Acquisition of Excite, Inc. On January 19, 1999, we agreed to acquire Excite, Inc. and to issue shares of our Series A common stock, including shares issuable upon the exercise of Excite options and warrants, valued at approximately $6.7 billion at the time of the announcement of the acquisition. Excite is a global Internet media company that attracts approximately 17 million visitors monthly to its www.excite.com and www.webcrawler.com portal Web sites. Excite is based in Redwood City, California. Under the merger agreement, we will issue approximately 1.0419 shares of our Series A common stock in exchange for each outstanding share of Excite common stock. As a result, assuming no exercise of Excite or our outstanding options and warrants, former shareholders of

Excite
will own approximately 30% of the outstanding shares of our Series A common stock. The acquisition will be accounted for as a purchase and is expected to close in the second quarter of 1999. Although our and Excite's boards of directors have approved the transaction, the acquisition is subject to several conditions, including approval by both companies' stockholders and the expiration of applicable waiting periods under certain antitrust laws. Therefore, there is a risk that the merger may not be consummated, and, even if
the merger is consummated, we will face challenges integrating Excite's business
with ours. Backbone Capacity Contract with AT&T. On January 5, 1999, we announced that
we had entered an agreement with AT&T to create a nationwide Internet Protocol network utilizing AT&T's backbone to cost-effectively support broadband services
throughout North America over the next 20 years. This new backbone facility, which is scheduled to be deployed in mid-1999, represents a 100-fold increase in
our backbone capacity and initially will enable us to support up to five million
broadband users. AT&T will first provide us with 2 OC-48 channels, each with the
capacity to transport 2.5 gigabits per second of data, over a 15,000 mile optical network. The agreement provides for significant expansion of capacity that allows us to take advantage of the rapid evolution of data transport technology.

Accounting Change for Certain Warrants. Following discussions with the staff of the Securities and Exchange Commission, we will record as intangible assets and amortize ratably over their remaining lives amounts which were previously expensed in connection with our Cablevision distribution agreement. We had recorded non-cash charges to operations of $172.6 million and $74.5 million in the fourth quarter of 1997 and the first quarter of 1998 related to the agreement. We have reversed these previously expensed amounts and recorded the entire $247.1 million as intangible assets, which will be amortized ratably
over their remaining lives. We will carry these intangible assets in our financial statements at the lower of its amortized cost or fair

value. These adjustments to our financial statements for the year ended December
31, 1997 and for the first three quarters of 1998 resulted in an increase to assets and stockholders' equity at the end of each of these periods. The reversal of the previously recorded charges to operations, less the amortization
of the intangible asset, resulted in a decrease to our previously reported net losses for the fourth quarter of 1997 and the first quarter of 1998 and an increase in the previously reported net losses for the second and third quarters
of 1998.

Acquisition of Narrative Communications Corp. On December 30, 1998, we acquired Narrative for approximately 1.3 million shares of Series A common stock, including shares issuable upon the exercise of outstanding Narrative options, valued at approximately $93.8 million. Narrative, a market leader in rich media advertising and direct marketing solutions for the World Wide Web, is
based in Waltham, Massachusetts and has nearly 50 employees. Narrative had a net
loss of approximately $5.7 million on revenues of approximately $202,000 in 1997
and had a net loss of $5.8 million on revenues of approximately $621,000 through
December 30, 1998, the purchase date. The acquisition was accounted for as a

purchase, and approximately $92.4 million of the purchase price was allocated to goodwill and other intangible assets and will be amortized over the respective useful lives of those assets, estimated to be 3.5 years. The remainder of the purchase price, $2.7 million, was charged to operations in the fourth quarter of 1998 as purchased in-process research and development.

Offering of Convertible Subordinated Debentures. On December 28, 1998, we issued $437.0 million of Convertible Subordinated Debentures in a private offering within the United States to qualified institutional investors. The issue price of each $1,000 debenture was $524.64, or 52.464% of principal amount at maturity, and the effective annual interest rate on the debentures, excluding amortization of the issuance cost, is approximately 4%. Each debenture is convertible at the option of the holder at any time prior to maturity into 6.55 shares of our Series A common stock. The debentures mature on December 28, 2018, and interest on the debentures at the rate of 0.5246% per annum on the principal amount due at maturity is payable semiannually commencing June 28, 1999. We raised approximately $222.4 million of net proceeds from the offering. We intend to use the net proceeds of the offering for general corporate purposes, including working capital and capital expenditures, including those associated with domestic and international expansion and additional backbone capacity. A portion of the net proceeds also may be used to acquire or invest incomplementary businesses or products or to obtain the right to complementary technologies.

PRODUCTS AND SERVICES

@Home Service

Our primary offering is the @Home service, a comprehensive broadband Internet solution that leverages the two-way HFC cable television infrastructure and our technological and programming capabilities to provide the @Home Experience, which we believe is the most compelling consumer Internet experience currently available. By connecting via a cable modem to the @Home broadband network through the local cable infrastructure, subscribers to the @Home service can achieve peak data transmission speeds of 2 to 5 megabits per second, which is over 100 times faster than the peak data transmission speed of a 28.8 kilobits per second dial-up modem. This high bandwidth enables compelling multimedia applications, broadband advertising, online commerce and multiplayer games. The @Home service offering also includes standard Internet service provider functionality, including Web page hosting for subscribers, the ability to create and manage multiple email accounts and remote access. We also offer the ability to share Internet access across multiple PCs in the home for an additional monthly fee. A critical differentiation of the @Home service is that the two-way cable infrastructure is "always on," providing instantaneous access to the Internet and eliminating the need for a time consuming dial-up procedure using the telephone network.

Our @Media group has established the @Home launch screen as the leading broadband Internet portal, providing a gateway to compelling multimedia and electronic commerce offerings on the Internet. The @Home portal provides the user with access to an array of multimedia content channels, powerful tools

and
Web-based applications designed specifically to take advantage of our broadband
network architecture. We believe that the @Home portal broadens the appeal of online services beyond technology enthusiasts to the mass market by facilitating
access to broadband content (such as animated graphics, near-CD-quality audio

and video clips) and stimulating persistent usage with timely, dynamic, highly sought-after data streams, as well as by simplifying navigation, increasing the
subscriber's knowledge of Internet resources. The @Home portal is organized around a series of channels, which are defined by both topical subjects (such as
news, technology, sports or popular culture) and audiences (such as children, game players or shoppers), and which present timely and compelling editorial content. Through the @Home portal, we generate and direct regular audience traffic to @Media and content providers' offerings. The @Home portal includes a
variety of tools that allow users to obtain information quickly and easily. For
example, the "How Do I" section, which is one click from the @Home portal, provides users with a variety of step-by-step solutions to such tasks as making
plane reservations and checking movie schedules. The service also includes a "Member Services" area where the customer can manage accounts and services via a
simple graphical interface, and personalized user services such as individualized stock portfolios. We have also recently launched the @Home Assistant, a proprietary @Home software application, which exploits @Home's "always-on" connection to provide "out of browser" one-click access to personalized stock prices, news feeds, local weather, sports scores and dining information. The @Home Experience also permits @Home subscribers to access online services, purchase software and engage in multiplayer gaming and interactive shopping.

The @Home service is currently offered to consumers in the United States for flat monthly fees generally ranging from $35 to $55, and typically includes
a cable modem provided by the cable partner. Installation of the @Home service is provided by the cable partner at prices generally ranging from $75 to $175.Upon installation, each new subscriber's personal computer is configured for the
@Home Experience with @Home client software, which provides access to the @Home
portal as well as other online services, Internet service providers and Web content. In addition to making the Internet considerably easier to access for consumers, the @Home client software offers advertisers and content providers a
rich and consistent client environment for delivering multimedia advertising, content and applications. The @Home client software includes a customized browser from Netscape and other high-performance and multimedia software optimized for the @Home Experience. We also provide a customized version of Microsoft's Internet Explorer, thereby giving subscribers a choice of browsers.
We have also initiated a distribution program with leading consumer electronic retailers and computer retailers, including CompUSA, Compaq and Dell, to facilitate the sale of the @Home service and DOCSIS-compliant cable modems.

In an effort to increase the deployment of our @Home service into North American homes and businesses, we are planning to establish a joint venture with
cable operators, technology suppliers and systems integrators to encourage small

and medium-sized cable operators to offer the @Home service. The venture would extend our current business model for large cable operators by providing a full range of services, including financing of cable and network equipment, expanded customer service, billing systems and service installation, and marketing support.

We are currently developing the capability to deliver the @Home Experience to televisions via set-top boxes connected to the cable infrastructure, and thereby meet the needs of a broader market of non-computer users. According to IDC, there are approximately 282 million television sets compared to approximately 66 million personal computers in United States households. In September 1998, we entered into an agreement with TCI's National Digital Television Center pursuant to which we agreed to develop software and provide integration services for TCI's advanced set-top devices that will deliver both digital television and Internet data services. The agreement contemplates that we will provide Internet connectivity for these devices, supply email accounts via geographically dispersed mail servers and provide overall system management for TCI's email services. We also are working with National Digital Television Center on the overall software integration related to TCI's advanced digital set-top devices. See "Risk Factors -- We face challenges associated with our joint development effort with TCI."

@Work Services

For businesses, @Work services provide end-to-end managed connectivity for Internet, intranet and extranet solutions over the cable infrastructure and digital telecommunications lines. In addition, @Work is developing a next generation platform to support networked business applications and other value-added data networking solutions such as server hosting and electronic commerce hosting. In order to accelerate

deployment of @Work's connectivity solutions in metropolitan areas throughout the United States, we have established a strategic relationship with TCG, the country's largest CLEC, to provide targeted co-location and local telephone circuits for infrastructure and subscriber connectivity. We currently offer two services: @Work Internet and @Work Remote.

@Work Internet. The @Work Internet service delivers dedicated, high-speed, end-to-end managed Internet connectivity to commercial enterprises over digital telecommunications lines, HFC cable and digital subscriber lines. The @Work Internet service offers dedicated access options at peak data transmission speeds ranging from 56 kilobits per second to 10 megabits per second. These solutions are priced competitively vis-a-vis existing alternatives. As of December 31, 1998, the telco-based @Work Internet service was available in 22 metropolitan markets including Boston, Chicago, Denver, Detroit, Los Angeles,New York, Orange County, Philadelphia, Phoenix, San Diego, San Francisco, Seattle, Vancouver and Washington, D.C. At December 31, 1998, we were providing @Work Internet services to nearly 1,700 businesses, a majority of these over digital telecommunications lines.

In February 1998, we and Cox announced the availability of the @Work Internet service via Cox's HFC cable infrastructure in Orange County, Phoenix, and San Diego. Businesses in these markets that are passed by two-way HFC cable can connect directly to the @Work Internet service. The @Work Internet HFC

service is a shared bandwidth solution that offers peak data transmission speeds
of 2 to 5 megabits per second downstream using the @Home broadband network.

@Work Remote. The @Work Remote Service is our first virtual private networking solution. This solution provides a secure, high-speed method for corporations to extend their local area networks to telecommuters and branch offices via the cable infrastructure. In November 1997, we announced a non-exclusive agreement with TCI, Cox and Comcast to develop, deploy and market @Work Remote in areas served by these cable partners. The @Work Remote service also includes the network equipment and software needed to connect corporate local area networks securely to the @Home broadband network via high-bandwidth local telephone circuits. We offer virtual private network capability between branch offices and corporate headquarters.

Our future @Work service offerings will leverage our existing connectivity
solutions and broadband network architecture to deliver more value-added services to commercial customers. @Work has introduced and will continue to introduce enhanced access services that include increased service level options
as well as solutions for companies seeking multiple commercial Internet connections to provide redundancy and load balancing. We also develop and deploy
hosting services that allow corporate information technology professionals to outsource certain networking tasks. For example, we introduced a variety of commercial shared Web site hosting and co-location services in the third quarter
of 1998. To further this goal, we entered into an agreement in March 1998 with Exodus, a provider of Internet hosting and network management solutions, to develop and deploy @Work-branded shared server hosting solutions. These hosting
solutions will also serve as a platform for outsourced network-based, commercial
applications and related management services. In addition, by designing each of
our regional data centers to include high-availability, high-performance servers
and mass storage, we believe that we will have the ability to deliver and facilitate next-generation client-server and distributed-object networked business applications. See "Risk Factors -- We must respond to rapid technological change."

@Media Services and Technologies

Our @Media group has established the @Home portal as the leading broadband
Internet portal, providing a gateway to compelling multimedia and electronic commerce offerings on the Internet. To date, the @Home Experience has generated
greater page views per subscriber than are reported by the leading narrowband Internet portal companies. The @Media group works with content providers to facilitate the creation of rich multimedia broadband content delivered through the @Home portal and to facilitate online transactions and services for our subscribers.

We believe that growth in our subscriber base will be critical to attracting advertisers. In addition to traditional sales and marketing efforts,
we have developed a variety of compelling programming services delivered through
the @Home portal in order to drive incremental subscriber revenue and penetration. In addition to receiving advertising fees, the @Media programming services provide a variety of other revenue sources, including fees related to

content partnering arrangements. Examples of @Media programming servicesinclude:

Real-Time News and Entertainment Services. Continuously-updated headlines delivered in the News, Sports and Finance @Home channels, and video clips presenting top stories, sports highlights and movie previews. Current @Media partners include Bloomberg and CNN Interactive.

Interactive Shopping. Evaluate and purchase goods via an interactive multimedia shopping experience. Current @Media partners include Amazon.com, AutoConnect, N2K, PC Connection, QVC, Realtor.com, Reel.Com and Travelocity. In addition, we have partnered with BuyDirect.com to enable @Home users to purchase and download software titles at speeds substantially faster and with greater reliability than a typical dial-up modem.

High-Speed Multiplayer Gaming. Download and play popular Internet games against other online players, delivered via the @Home Games channel. By combining high speed with very low latency, the @Home broadband network provides an excellent environment for high-quality game play. We have already co-located game servers on our network backbone and are offering multiplayer online games to @Home subscribers from SegaSoft.

Digital Audio Services. Near-CD-quality audio on various music, talk and event channels (including jazz, rock and 24-hour sports talk) via our Tune-In service. Users can simultaneously listen to the Tune-In service and browse the Internet. Current @Media partners include Bloomberg Radio, CNET Radio, Net Radio, SportsLine and Spinner.com.

Digital Photography. @Media has established a relationship with Intel to utilize our high bandwidth to create an online photography resource center. The resulting service, Making Pictures, enables users to share their photographs and learn more about the industry migration to digital photography.

Enhanced Search and Directory Services. Leading search and directory services integrated into the @Home portal. Current @Media partners include Inktomi Corporation, a leading provider of search solutions, and Looksmart International Limited, a leading provider of directory services.

The @Media group offers a series of technologies to assist advertisers and content providers in delivering compelling multimedia advertising and premium services, including replication and co-location. Replication enables our content partners to place copies of their content and applications locally on the @Home broadband network, thereby reducing the possibility of Internet bottlenecks at the interconnect points. Co-location allows content providers to co-locate their content servers directly on the @Home broadband network. Content providers can then serve their content to @Home subscribers without traversing the congested Internet. For example, CNN and Bloomberg videos are replicated into each of our regional data centers. Also, multiplayer game servers are co-located to enable low-latency online gaming.

The @Media group sells advertising through several formats including banners, half-banners, and the "B*box," a broadband audio/video advertising

space. With the B*box, advertisers are not constrained by the Web banner paradigm and can broaden their creative presentation using video clips, audio and animation. Advertisers have the ability to enhance their message by using multimedia tools and technologies such as Enliven, Flash, Quicktime Video, Real
Audio and Shockwave. We derive advertising revenue on a CPM basis as well as on
a sponsorship basis. We had 57 advertisers in the fourth quarter of 1998, including Ford, Godiva, Intel, Kodak, Lands' End, Lexus, Mercedes Benz and Starbucks. Advertisers have reported response rates (click-throughs) substantially greater than they currently experience with traditional Web banner
advertisements. Advertisers' ability to present more compelling messages to online users has resulted in advertising rates greater than those charged forbanner advertising on the Web.

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In addition to revenue derived from advertisements, we have established relationships with certain of our interactive shopping and gaming partners whereby we participate in the revenues or profits for certain transactions on the @Home portal. We also allow certain of our content partners to sponsor certain content channels for a fee.

THE @HOME BROADBAND NETWORK

We designed the @Home broadband network on the premise that sustainable, high-performance Internet access requires a new, scalable architecture to alleviate Internet bottlenecks and to enable true end-to-end network management
capabilities. Residential subscribers access the network primarily through high-speed cable modems, which attach to their personal computers via a standard
Ethernet connection, while businesses can also connect through telecommunications networks. The four key principles of our network strategy are
moving data closer to the user, end-to-end network management, "always-on" service and scalability.

Moving Data Closer to the User. The @Home broadband network utilizes caching and replication technologies to move the information that a subscriber requests close to the subscriber. Local caching reduces backbone network traffic, enabling the @Home broadband network to overcome a fundamental weakness
of the Internet's duplicative data transfers. For example, when a subscriber downloads a video clip from a Web site, the user must "pull" data across the Internet from that Web site to the user's Internet service provider and finally
to the user's computer. If the user's neighbor requests the same video clip from
that Web site, the neighbor must pull the same data across a similar path. In contrast, our approach would move the video clip over our high-speed backbone only once in a given geographic area and retain it in a local cache near the user's home where it could be accessed by every subscriber within that area without retransmission over the backbone. This more cost-effective approach simultaneously improves the end user's performance and reduces traffic volume across the backbone.

End-to-End Network Management. We achieve end-to-end network management through our proactive network quality, service and performance management systems. The @Home broadband network provides visibility from our servers (or content partners' servers) across the backbone and all the way to the subscriber's home. Because the @Home broadband network is centrally managed, we
can dynamically identify and enhance network quality, service and performance, or address issues before they affect the user experience.

"Always On" Service. The @Home broadband network is "always on," unlike switched technologies such as dial-up and ISDN. The user is always connected to the Internet as long as his or her computer and cable modem are on. This eliminates the need for a time-consuming connection process, as with a dial-up service, and changes the way the customer uses the Internet.

Scalability. The @Home service is architected to be scalable to handle increasing numbers of subscribers without degradation. Although users in the same service area share high-bandwidth access (much like corporate LANs), which may limit the effective bandwidth that is available to a given subscriber at a given time, this shared connection is particularly efficient and well suited to the sporadic nature of Internet traffic, where browsing tends to consume bandwidth in discrete bursts intermixed with periods of inactivity. As subscriber penetration increases, the cable operator has multiple cost-effective alternatives to increase capacity, including allocating additional 6 MHz channels for the @Home service or reducing the number of subscribers sharing a given bandwidth by adding nodes, with each node serving a smaller number ofsubscribers over the same fiber-optic infrastructure.

The primary components of the @Home broadband network are our high-speed private national backbone, regional data centers, regional networks, headends (including caching servers), network connections and cable modems and the Network Operations Center.

Private National Backbone. We operate our own private national backbone, which consists of a network of high-speed asynchronous transfer mode communications services that we lease to connect our regional data centers and regional networks with content providers and the Internet. These services currently operate at a speed of 45 megabits per second and can be upgraded to 155 megabits per second or higher. This backbone can be viewed as a high-speed "parallel Internet" that connects via our routers

to the Internet at multiple network access points with "Tier-One" peering status, which permits us to exchange Internet traffic with other nationwide Internet service providers. In January 1999, we announced that we had entered an agreement with AT&T to create a nationwide Internet Protocol network utilizing AT&T's backbone to cost-effectively support ubiquitous broadband services throughout North America over the next 20 years. This new backbone facility, which is scheduled to be deployed in mid-1999, represents a 100-fold increase in our backbone capacity and initially will enable us to support up to five million broadband users.

Regional Data Centers. The regional data centers act as service hubs for defined geographic areas, such as major metropolitan areas, providing key services, including email, news groups and chat facilities, to subscribers, managing network performance proactively, replicating content and applications, and providing a cost-efficient infrastructure to cache and multicast data throughout a region and to house local content and subscribers' Web pages. We use "high availability" servers from Sun Microsystems, Inc. in our regional data centers for these mission-critical activities. We have deployed regional data centers in 19 geographic areas as of December 31, 1998.

Regional Networks. The regional networks consist of network routers

and switches that interconnect our regional data centers and national backbone to multiple cable headend facilities at speeds of 45 megabits per second to 155 megabits per second. These networks generally take advantage of cable operators' fiber optic infrastructures that are normally used to transport cable television signals from a consolidated master headend facility to other headends within a region. This approach often allows us to avoid the high cost of leasing conventional high-speed communication services from local telephone companies when deploying high-speed connectivity in a region.

Headends. The cable system headends are connected to each regional data center through the regional network. In order to move data as close to the subscriber as possible and to avoid repetitive transmission of the same data, the headends employ high-performance caching servers that store frequently accessed content locally, thereby greatly reducing the amount of data transmission (and corresponding transport costs) in higher layers of the network. In addition, local caching servers can compile far more comprehensive usage data than is normally attainable on the Internet, which can be used for network troubleshooting, tuning performance and tailoring the @Home service.

Network Connections. The last leg of the network connection is from the headend to the consumer over a cable operator's HFC cable system. Multiple fiber optic lines carry the signal from the headend out to cable nodes in each neighborhood, which in turn connect through traditional coaxial cable to the home. These fiber optic nodes typically service from 300 to 2,000 homes in a relatively modern cable system. In such a system, each television channel requires 6 MHz of the 450-750 MHz of total system capacity. Downstream transmission of the @Home service utilizes a similar channel. Upstream transmission, however, utilizes a frequency range not used for traditional broadcast by cable systems. This range is more prone to interference than downstream channels, which effectively limits the peak upstream transmission speed.

Cable Modems. In the home, a cable modem connects to the cable television coaxial wiring and attaches to the user's personal computer via standard Ethernet connections. While peak data transmission speed of a cable modem depends on the specific model and can approach 10-27 megabits per second downstream and 0.7-10 megabits per second upstream, the performance that subscribers actually experience is often constrained by the capacity of their personal computers, the capacity of the server being accessed and the type of network architecture utilized. In addition, in some markets, we have limited users' upstream bandwidth in order to prevent user abuse, and we expect to continue to limit upstream bandwidth in additional portions of our network. The North American cable industry has adopted DOCSIS to support the delivery of data services utilizing interoperable cable modems. We believe that this new standard and the distribution of DOCSIS-compliant modems through computer retailers will facilitate the growth of the cable modem industry and the availability of lower cost interoperable cable modems through retail channels. See "Risk Factors -- The scalability, speed and

security of our network is unproven" and "-- We depend on two-way cable modems based upon a new industry standard."

Network Operations Center. We provide end-to-end network management through our Network Operations Center. The Network Operations Center uses advanced network management tools and systems to monitor the network infrastructure on a 24 x 7 basis, enhancing its ability to address performance bottlenecks before they affect the user experience. From the Network Operations Center, we can manage the @Home broadband network from end-to-end, including the backbone, regional data centers, regional networks, headend facilities, servers and other components of the network infrastructure to the user's home. See "Risk Factors -- Our dependence on our network exposes us to a significant risk of system failure."

We also utilize certain key technologies from third parties to build and manage the @Home broadband network. In particular, we have established strategic relationships with AT&T for network backbone capacity, Sun Microsystems for high availability servers, Silicon Graphics for caching servers, Cisco Systems, Inc. for network routing and switching hardware, Sprint for national switched ATM backbone services, Objective Systems Integrators, Inc. for network management software, Tivoli Systems Inc. for systems management software to operate regional data centers remotely, Oracle Corporation for advanced database management software, Microsoft and Netscape and for server and browser software, Inktomi for proxy and caching software and Software.com for efficient mail delivery. See "Risk Factors -- We must respond to rapid technological change" and "-- The scalability, speed and security of our network is unproven."

PRODUCT DEVELOPMENT AND ENGINEERING

Our product development and engineering efforts focus on: (1) design and development of new technologies and products to increase the speed and efficiency of our broadband network architecture and to facilitate the development and distribution of high bandwidth content and commercialvalue-added applications; (2) adaptation of our network services for use over non-HFC access technologies, such as digital subscriber line; (3) development of software tools and enabling platforms for the creation and distribution of enhanced content optimized for our broadband network; and (4) porting the appropriate components of the @Home Experience to TV-based Internet devices and developing software, email support and related services for these devices. See "Risk Factors -- We face challenges associated with our joint development effort with TCI."

Our product development and engineering expenses for the years ended December 31, 1996, 1997 and 1998 were $6.3 million, $12.0 million and $17.0 million.

STRATEGIC DISTRIBUTION RELATIONSHIPS

Strategic Relationships with North American Cable Partners. We have strategic relationships with 16 cable companies whose systems pass approximately 57.3 million homes in North America. Subject to certain exceptions, TCI, Comcast, Cablevision and Cox have granted us the exclusive right to offer high-bandwidth residential consumer Internet services over their cable systems until June 4, 2002. Rogers and Shaw have agreed to market and promote the @Home service in Canada on an exclusive basis. Our other cable partners in North America have entered into agreements to distribute the @Home service on an exclusive basis through certain of their cable systems. See "Risk Factors -- Our cable partners are not generally obligated to carry our services, and the

exclusivity obligations that prevent them from carrying competing services are limited and may be terminated."

Of the 57.3 million homes, approximately 13.2 million were passed by upgraded two-way HFC cable as of December 31, 1998, and we believe that our cable partners will complete the upgrade of systems passing a majority of their homes within four years. Our cable partners have announced and begun to implement major infrastructure investments in order to deploy two-way HFC cable. However, certain of our cable partners have limited experience with these upgrades, and these investments have placed a significant strain on the financial, managerial, operating and other resources of our cable partners, most of which are already highly leveraged. Therefore, these infrastructure investments have been, and we expect will continue to be, subject to change,

delay or cancellation. Although our commercial success depends on the successful and timely completion of these infrastructure upgrades, most of our cable partners are under no obligation to upgrade systems or to introduce, market or promote our services. See "Risk Factors -- We depend on our cable partners to upgrade to the two-way cable infrastructure necessary to support our @Home service; the timing and availability of these upgrades are uncertain" and "-- Our principal cable partners may dispose of their cable systems, which would reduce our potential subscriber base."

As of December 31, 1998, we had approximately 331,000 subscribers in the United States and Canada, including recently acquired Internet subscribers served by Jones and Cogeco that are being converted to the @Home service. As of December 31, 1998, our cable partners had launched the @Home service in portions of the cities and communities set forth in the following table.

CABLE PARTNERS	CITIES & COMMUNITIES	
BRESNAN	Bay City, MI	
CABLEVISION	Long Island, NY Norwalk, CT	
COGECO	Toronto, ON	Windsor, ON
COMCAST	Atlanta, GA Baltimore, MD Charleston, SC Chesterfield, VA Detroit, MI	Orange County, CA Philadelphia, PA Sarasota, FL Trenton, NJ
COX	Hampton Roads, VA Hartford, CT New Orleans, LA Oklahoma City, OK Omaha, NE	Orange County, CA Phoenix, AZ Providence, RI San Diego, CA
GARDEN STATE	Cherry Hill, NJ	
INSIGHT	Jeffersonville, IN	
INTERMEDIA	Greenville/Spartanburg, SC	Nashville, TN

	Louisville, KY	
JONES	Washington DC Region, VA	
MARCUS	Fort Worth, TX	
ROGERS	Ottawa, ON Southwest Ontario	Toronto, ON Vancouver, BC
SHAW	Calgary, AB Edmonton, AB Ft. McMurray, AB Kelowna, BC	Richmond Hill, ON Saskatoon, SK Victoria, BC Winnipeg, MB
TCI	Arlington Heights, IL Baton Rouge, LA Cedar Rapids, IA Dallas, TX Denver, CO Des Moines, IA East Lansing, MI Hartford, CT	Moline, IL Pittsburgh, PA Portland, OR Rochester, NY Royal Oak, MI San Francisco Bay Area, CA Seattle, WA Spokane, WA Woodhaven, MI

In order to shorten time to market for cable operators, we provide a turnkey solution, which includes not only a technology platform, but also a national brand, marketing, customer service and billing. This solution enables our cable partners to leverage their respective infrastructures to deliver high-bandwidth interactive data services that represent significant new revenue opportunities. Our cable partners have the additional opportunity to develop and receive all the revenues derived from local content distributed locally through

portions of the @Home broadband network to local subscribers. Our cable partners bear the cost of upgrading and maintaining their cable systems to provide high-speed two-way data transmission, installing the @Home service in subscribers' homes, procuring the cable modems needed to interface with the @Home broadband network and local marketing efforts. See "Risk Factors -- Several factors may inhibit the growth of the @Home Service."

Under current arrangements with our U.S. cable partners, we receive 35% of both the basic monthly fees and the fees for premium services, and they retain the entire installation payment. In Canada, we receive a smaller percentage of the monthly subscription fees billed by Rogers, Shaw and Cogeco because Rogers, Shaw and Cogeco are responsible for various costs that are not borne by our cable partners in the United States such as the costs of providing additional customer support, data transport within Canada, and national marketing and content programming.

In international markets, we anticipate that the subscriber pricing and revenue or royalty splits with cable system operators will be different from those that prevail in the United States based on differences in services and content provided by the international cable system operators, data transport costs and regulatory environments. To the extent that we offer terms of distribution and other services to international cable system operators that are more favorable than those offered to the four principal U.S. cable partners, these principal U.S. cable partners have the right to obtain such more

favorable terms under a "most favored nation" provision in their distribution agreement with us.

Strategic Relationships with Cable Partners Outside of North America. On July 15, 1998, we entered into a Joint Venture Agreement with Edon and MEGA Limburg Telediensten N.V. and N.V. PNEM Teleservices, together acting under the trade name Palet Kabelcom (Edon and Palet Kabelcom are each multi-system cable operators in The Netherlands which together cover approximately twenty percent (20%) of homes served by cable in The Netherlands), to create a Netherlands limited liability company known as @Home Benelux B.V. @Home Benelux will deliver a customized version of our Internet services to residential cable subscribers in The Netherlands and, later, throughout the Dutch-speaking Benelux territories. In addition, we have entered into an agreement with Intel to create a limited partnership whereby Intel will invest $20 million in @Home Benelux, which operates under the trade name @Home Nederland, to help speed the deployment of broadband services in the Netherlands. In connection with the formation of @Home Benelux, we have agreed to license to @Home Benelux our core technologies on an exclusive basis in the Dutch-speaking Benelux territories for a period of seven years commencing on the earlier of June 30, 1999 or the date we are first entitled to receive revenue from our 1,000th @Home Benelux subscriber. We will also perform certain management services in connection with the start-up and ongoing operations of @Home Benelux. Edon and Palet Kabelcom have each agreed to the exclusive distribution via their cable networks of our Internet services for a similar time period as the @Home Benelux license. @Home Benelux will also seek to expand its penetration of homes served by cable in the Benelux territories by entering into additional exclusive distribution agreements with other multi-system cable operators. We believe that @Home Benelux will begin delivery of our services to customers in The Netherlands in the first quarter of 1999.

Agreement with TCG. We have a Master Communications Services Agreement with TCG, the largest CLEC in the United States, which provides high-speed fiber optic telecommunications services to commercial customer sites in metropolitan centers in the United States. Under its agreement with us, TCG provides telecommunications facilities management and network services for the local telecommunications transport requirements of our @Work services. In markets served by TCG networks, TCG provides us with (1) the ability to co-locate ourequipment within TCG's network distribution facilities and (2) transport access facilities to and from the co-located equipment, including all services provided completely on TCG's network and services provided through a combination of TCG's network and the network of a third-party local exchange carrier. The agreement provides us with such telecommunications services at rates generally at or below those of competing carriers, and the ability to co-locate our regional data centers within TCG's network distribution facilities at favorable rates. Our access to TCG's fiber optic network and switching infrastructure gives us a nationwide opportunity in the commercial marketplace, which we believe will accelerate the deployment of our @Work services into major United States markets.

Agreement with Northpoint. In June 1998, we entered into an agreement

with Northpoint, a wholesale data CLEC that provides digital subscriber line access to small and medium sized businesses, whereby Northpoint provides "local loops" that represent an additional last-mile transport option for @Work's Internet access and networking offerings. Northpoint currently offers service in Boston, Chicago, metropolitan Los Angeles, New York City, San Diego, the San Francisco Bay Area and Washington D.C. and plans to expand nationally over the next several years. As part of the agreement, we will receive engineering and operational support from Northpoint. In addition, we will have input into Northpoint's launch plans, and the two companies will jointly fund marketing programs. We believe that favorable access to Northpoint's digital subscriber line transport services will facilitate @Work's deployment of cost-effective dedicated commercial Internet access services aimed at small businesses that historically have relied on dial-up or ISDN access options.

Agreement with Exodus. In March 1998, we entered into an agreement with Exodus, a provider of Internet hosting and network management services, under which Exodus will work with us to develop and implement customized, @Work-branded versions of Exodus' server hosting and network management services solutions that leverage Exodus facilities and infrastructure. We will market and sell these solutions in conjunction with @Work's connectivity and value-added network applications. Additionally, Exodus has committed to market and resell certain @Work commercial connectivity and value-added application solutions. We will also work with Exodus to interconnect our respective networks, allowing us to take advantage of Exodus' series of private and public peering relationships. We believe that favorable access to these hosting capabilities will accelerate the development and implementation of @Work's network-based applications and other services.

EMPLOYEES

As of December 31, 1998, we had 570 employees, excluding temporary personnel and consultants. Of the total: 96 were employed in networking engineering; 101 were employed in operations; 166 were employed in customer support, sales, marketing and related activities; 69 supported the @Work services; 70 supported the @Media services; 13 supported our international operations; and 55 were employed in general and administration. None of our employees is represented by a labor union, and we consider our relations with our employees to be good. Our ability to achieve our financial and operational objectives depends in large part upon the continued service of our senior management and key technical personnel and our continuing ability to attract and retain highly qualified technical and managerial personnel. Competition for such qualified personnel in our industry and geographical location in the San Francisco Bay Area is intense, particularly in software development, network engineering, cable engineering and product management personnel. See "Risk Factors -- We face challenges managing our expanded operations and we depend on key personnel."

ITEM 2. PROPERTIES

We are headquartered in facilities consisting of approximately 135,000 square feet in Redwood City, California, which we occupy under a 12-year lease. In September 1997 and March 1998, we exercised build-to-suit options requiring the landlord to build additional facilities of approximately 360,000 square feet on adjacent property. All facilities constructed under our build-to-suit options

will be subject to leases of up to 15 years in length, have base rent determined in relation to construction costs and will include tenant improvements paid for by us. The build-to-suit options that have been exercised to date provide for monthly rental payments beginning upon the phased completion of the buildings. Occupancy of the first phase is scheduled to occur during the second half of 1999, and occupancy of the second phase is scheduled to occur early in the year 2000. In addition to our build-to-suit options, in December 1998 we exercised our right to purchase one land parcel from the landlord. The purchase price of the exercised option is payable in two installments, one of $278,000, which was paid in December 1998, and a second installment of $5,288,000, which is due in the first half of 1999. We also have smaller offices in Waltham, Massachusetts and Bala Cynwyd, Pennsylvania. The Waltham facility, which we assumed in connection with our acquisition of Narrative and which consists of approximately 10,000 square feet, houses our new Enliven service. The Bala Cynwyd facility is a small sales office that supports our cable partners in the eastern United States and eastern

Canada. We believe that our existing facilities and the facilities we have the right to have built will be adequate to accommodate our growth for the foreseeable future.

ITEM 3. LEGAL PROCEEDINGS

We are not aware of any material legal proceedings at December 31, 1998.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

There were no matters submitted to a vote of security holders in the fourth quarter of 1998.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED SHAREHOLDER MATTERS

Market for Registrant's Common Equity. Our Series A Common Stock is traded on the National Market System of the Nasdaq Stock Market, Inc. under the symbol ATHM. The following table sets forth the range of the high and low sale prices by quarter as reported on the Nasdaq National Market since July 11, 1997, the date our Common Stock commenced trading.

QUARTER	HIGH	LOW
1997 Third Quarter (commencing July 11, 1997)	25 5/16	17
1997 Fourth Quarter	29 3/8	18 7/16
1998 First Quarter	38 1/8	20 1/2
1998 Second Quarter	57 1/4	29 3/4

1998 Third Quarter	54	15/16	23 1/2
1998 Fourth Quarter	84	3/4	34 1/2

As of February 5, 1998, the number of stockholders of record was 911. We currently intend to retain any earnings for use in our business and do not anticipate paying any cash dividends in the foreseeable future.

Recent Sales of Unregistered Securities. On November 9, 1998, in connection with our acquisition of Full Force Systems, Inc., we issued 38,190 shares of our Series A common stock to the shareholders of Full Force in a private transaction that was exempt from registration under the Securities Act by virtue of Section 4(2) of the Securities Act.

On December 28, 1998, we issued $437 million principal amount of Convertible Subordinated Debentures due 2018 in a transaction that was exempt under the Securities Act by virtue of Section 4(2) of the act. Merrill Lynch, Pierce, Fenner & Smith Incorporated, Morgan Stanley & Co. Incorporated and Goldman Sachs & Co. acted as initial purchasers and offered the debentures to qualified institutional investors in the United States in reliance on Rule 144A under the Securities Act and to institutional accredited investors, as defined in Rule 501(a)(1), (2), (3) and (7) under the Securities Act. Each $1,000 debenture is convertible into 6.55 shares of our Series A common stock.

On December 30, 1998, in connection with our acquisition of Narrative, we issued 1,205,333 shares of our Series A common stock to the Narrative stockholders in a private transaction that was exempt from registration under the Securities Act by virtue of Section 4(2) of the Securities Act, and we will issue options to purchase 141,273 shares of our Series A common stock.

Use of Proceeds from Sales of Registered Securities. We commenced our initial public offering on July 11, 1997 pursuant to a Registration Statement on Form S-1 (File No. 333-27323). In the offering, we sold an aggregate of 10,350,000 shares of Series A common stock (including 1,350,000 shares sold pursuant to the exercise of the Underwriters' over-allotment option) at an initial price of $10.50 per share. The offering was closed on July 16, 1997.

Aggregate proceeds from the offering were $108,675,000, which included $14,175,000 in aggregate proceeds due to the exercise of the underwriters' option to purchase shares to cover over-allotments. The

Company paid underwriters' discounts and commissions of $7,607,250 and other expenses of approximately $1,300,000 in connection with the IPO. Our total expenses in the offering were $8,907,250, and our net proceeds were $99,767,750. Of the net proceeds, $12,345,000 has been used for purchases of property, equipment and improvements, $9,292,000 has been used for payments on capital lease obligations, $19,941,000 has been used to fund operating losses and the remainder has been allocated to general working capital requirements.

ITEM 6. SELECTED FINANCIAL DATA

The following selected consolidated financial data is qualified by reference, and should be read in conjunction with, our Consolidated Financial Statements and the notes thereto and "Management's Discussion and Analysis of Financial Condition and Results of Operations" appearing elsewhere herein. The

selected consolidated statement of operations data presented below for the years
ended December 31 1998, 1997 and 1996, and the selected consolidated balance sheet data as of December 31, 1998, 1997 and 1996, are derived from our consolidated financial statements that have been included elsewhere in this Form
10-K.

DECEMBER 31,	YEAR ENDED		
	1998	1997	1996
	(IN THOUSANDS, EXCEPT PER SHARE DATA)		
CONSOLIDATED STATEMENT OF OPERATIONS DATA:			
Revenues(1)	$ 48,045	$ 7,437	$ 676
Costs and expenses:			
Operating costs	46,965	22,459	6,969
Product development and engineering	17,009	11,984	6,312
Sales and marketing	18,091	11,863	6,368
General and administrative	12,429	10,635	6,054
Total costs and expenses before cost and amortization of distribution agreements and acquisition costs(2)	94,494	56,941	25,703
Loss from operations before cost and amortization of distribution agreements and acquisition costs	(46,449)	(49,504)	(25,027)
Interest income, net	6,413	3,033	514
Loss before cost and amortization of distribution agreements and acquisition costs	(40,036)	(46,471)	(24,513)
Purchased in-process research and development	2,758	--	--
Cost and amortization of distribution agreements	101,385	9,246	--
Net loss	$(144,179)	$(55,717)	$(24,513)
Pro forma basic and diluted net loss per share	$ (1.26)	$ (0.54)	$ (0.26)
Pro forma shares used in per share calculation	114,240	103,543	96,120

(1) Revenues from related parties	$ 10,458	$ 2,948	$ 634		
(2) Depreciation and amortization included in costs and expenses	$ 15,029	$ 8,913	$ 1,903		

	AS OF DECEMBER 31,			
	1998	1997	1996	
CONSOLIDATED BALANCE SHEET DATA:				
Cash, cash equivalents, and short-term cash investments	$419,289	$120,379	$16,770	
Working capital	390,324	101,390	10,573	
Distribution agreements, net of accumulated amortization	186,247	163,345	--	
Total assets	780,631	323,928	33,388	
Convertible debentures	229,344	--	--	
Capital lease obligations, less current portion and other long-term liabilities	14,356	15,735	5,654	
Stockholders' equity	493,866	282,407	18,317	

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Restated)

GENERAL

We are the leading provider of broadband Internet services over the cable television infrastructure to consumers. By virtue of our relationships with 18 cable companies in North America and Europe, we have access to approximately 58.7 million homes, which includes exclusive access to over 50% of the households in the United States and Canada. We also provide broadband Internet services to businesses over both the cable television infrastructure and digital telecommunications lines.

Our primary offering, the @Home service, allows residential subscribers to connect their personal computers via cable modems to a high-speed Internet backbone network developed and managed by us. This service enables subscribers to receive the "@Home Experience," which includes Internet service over hybrid

fiber co-axial, or HFC, cable at transmission speeds up to 100 times faster than typical dial-up connections, "always on" connection and rich multimedia programming through our broadband Internet portal. The technology foundation of the @Home Experience is our scalable, distributed, intelligent network architecture (our broadband network), a "parallel Internet" that optimizes traffic routing, improves security and consistency of service, and facilitates end-to-end network management, enhancing our ability to address performance bottlenecks before they affect the user experience.

Our @Media group has established the @Home launch screen as the leading broadband Internet portal, providing a gateway to compelling multimedia and electronic commerce offerings on the Internet. To date, the @Home Experience has generated greater page views per subscriber than are reported by the leading narrowband Internet portal companies. Our @Media group works with content providers to facilitate the creation of rich multimedia broadband content delivered through the @Home portal and to facilitate online transactions and services for @Home subscribers. Multimedia content offerings include on-demand video clips from partners such as Bloomberg and CNN Interactive, on-demand music and CD previews provided by our Tune-In service and low-latency multiplayer gaming from SegaSoft. Electronic commerce partners include Amazon.com, the leading online bookseller, BuyDirect.com, an online software distributor, and Travelocity, a leading online travel site. Our @Media group also sells advertising on a cost per thousand impressions, or CPM, basis as well as on a sponsorship basis. We had 57 advertisers in the fourth quarter of 1998, including Ford, Godiva, Intel, Kodak, Lands' End, Lexus, Mercedes Benz and Starbucks.

For businesses, our @Work services provide a platform for Internet, intranet and extranet connectivity solutions and networked business applications over both cable infrastructure and digital telecommunications lines. In order to accelerate deployment of the @Work connectivity and hosting solutions into major U.S. metropolitan areas, we have established strategic relationships with Teleport Communications Group, the country's largest competitive local exchange carrier and a subsidiary of AT&T, Northpoint, a provider of digital subscriber line services to businesses, and Exodus, a provider of Internet hosting and network management services. By combining our broadband distributed network architecture with cable, telephone and technology relationships, the @Work services provide a compelling platform for nationwide delivery of network-based business applications. We have developed this platform at a low incremental cost by leveraging our existing broadband network investment. We currently provide @Work services to nearly 1,700 businesses.

We have entered into distribution arrangements for our @Home service with 16 cable companies in North America whose cable systems pass approximately 57.3million homes -- Tele-Communications, Inc., Cablevision Systems Corp., Comcast Corporation, Cox Communications, Inc., Rogers Cablesystems Limited, Shaw Cablesystems Ltd., Bresnan Communications Company, Century Communications Corp., Cogeco Cable, Inc., Garden State Cable, Insight Communications, InterMedia Partners IV L.P., Jones Intercable, Inc., Lenfest Communications Inc., Marcus Cable Operating Company, L.P. and Midcontinent Cable Co. Some of these distribution arrangements are subject to the completion of definitive agreements. As of December 31, 1998, approximately 13.2 million of the homes served by these cable partners were passed by upgraded two-way HFC cable, and we believe that our cable partners will complete the upgrade of systems passing a

majority of their homes within four years. In order to shorten time to market for cable operators, we provide a turnkey solution, which includes not only a technology platform and a national brand, but also ongoing marketing, customer service, billing and product development support. As of December 31, 1998, we

had launched the @Home service through our cable partners in portions of 59 cities and communities in the United States and Canada and have approximately 331,000 subscribers.

As part of our strategy to expand into international markets, we have entered into agreements for the distribution of our @Home service by Edon and Palet Kabelcom in the Netherlands. We have entered into an agreement with Intel to create a limited partnership whereby Intel will invest $20 million in @Home Benelux, which operates under the trade name @Home Nederland, to help speed the deployment of broadband services in the Netherlands. We have also initiated distribution programs with leading consumer electronics retailers and computer manufacturers, including CompUSA, Compaq and Dell, to facilitate the sale of the @Home service and cable modems compliant with the new DOCSIS cable modem standard. In addition, we are working with CableLabs and National Digital Television Center, a subsidiary of TCI, to develop advanced digital set-top boxes to provide broadband Internet access via television sets and to accelerate transformation of the Internet into a mass medium.

This annual report contains forward-looking statements relating to future events or financial results, such as statements indicating that "we believe," "we expect" or "we anticipate" that certain events may occur or certain trends may continue, and similar statements relating to future events or financial results. These forward-looking statements are subject to material risks and uncertainties as indicated under the caption "Risk Factors." Actual results could vary materially as a result of a number of factors including those set forth in "Risk Factors" and elsewhere in this report.

RESULTS OF OPERATIONS

YEAR ENDED DECEMBER 31, 1998 COMPARED TO YEAR ENDED DECEMBER 31, 1997

Revenues

	1998	CHANGE	1997
	(DOLLARS IN THOUSANDS)		
Revenues	**$48,045**	**546%**	**$7,437**

Our revenues increased by 546% to $48.0 million for 1998 from $7.4 million for 1997. The growth in revenues came from an increase in the number of subscribers to our services. Our revenues consist of monthly subscription feesfor the @Home residential service, installation and monthly access fees for @Work services, and fees for advertising, content placement and content

development from @Media services. In 1998, approximately 50% of our revenues came from @Home services, approximately 40% of our revenues came from @Work services, and approximately 10% of our revenues came from @Media services. Our @Home subscribers increased 569% to approximately 331,000 at the end of 1998 from approximately 50,000 at the end of 1997. The number of subscribers to our @Work services increased by 409% to approximately 1,700 at the end of 1998 from 331 at the end of 1997. Revenues generated from our @Media services were evenly split between advertising revenue and content revenue. Our number of advertisers at December 31, 1998, 57, was 185% higher than our number of advertisers at December 31, 1997. Content revenues increased as demand for broadband portal placement intensified. For 1998, revenues for the @Home service generated from United States subscribers and Canadian subscribers represented 78% and 22% of total revenues. We expect subscriber growth rates for the @Home service in the United States to exceed those in Canada in 1999. Therefore, we expect revenues generated from United States @Home subscribers will represent a greater portion of total revenues for the @Home service in 1999. However, subscriber growth is subject to a number of risks. See "Risk Factors -- Several factors may inhibit the growth of the @Home service." Revenues from related parties, as a percentage of total revenues, represented approximately 22% for 1998 and 40% for 1997. Related-party revenues included development fees for @Work services and set-top devices and fees for billing and support functions.

Total Costs and Expenses

	1998	CHANGE	1997
	(DOLLARS IN THOUSANDS)		
Operating costs	$ 46,965	109%	$22,459
Product development and engineering	17,009	42%	11,984
Sales and marketing	18,091	52%	11,863
General and administrative	12,429	17%	10,635
Total costs and expenses before cost and amortization of distribution agreements and acquisition costs	94,494	66%	56,941
Purchased in-process research and development	2,758	N/A	--
Cost and amortization of distribution agreements	101,385	997%	9,246
Total costs and expenses	$198,637	200%	$66,187

Total costs and expenses before charges for purchased in-process research and development and cost and amortization of distribution agreements increased 66% to $94.5 million for 1998 from $56.9 million for 1997. Total expenses after cost and amortization of the distribution agreements and purchased in-process research and development associated with the acquisitions of Narrative and Full Force increased 200% for 1998 to $198.6 million from $66.2 million for 1997. We believe continued expansion of our operations is critical to the achievement of our goals, and we anticipate that costs and expenses will continue to increase in 1999 although at a slower rate than the expected increase in our revenues. However, our operating results may fluctuate significantly, and revenues could grow at a slower rate than costs and expenses. See "Risk Factors -- Our quarterly operating results may fluctuate significantly."

Operating Costs. Operating costs are primarily related to providing services to customers, maintaining the @Home broadband network, generatingcontent programming for the @Home portal and deploying the @Home service in Europe. Operating costs increased 109% to $47.0 million for fiscal 1998 from $22.5 million for 1997. This increase of $24.5 million in operating costs was primarily attributable to the following factors in the following proportions:

- approximately 25% to costs of customer service operations to support a larger subscriber base;

- approximately 20% to telecommunications costs to connect the @Home broadband network to additional areas;

- approximately 15% to telecommunications costs related to our @Work business; and,

- approximately 15% to maintenance and depreciation of capital equipment required for our network.

Operating costs are expected to increase substantially during 1999 as we continue to make substantial investments in network infrastructure and customer service operations.

Product Development and Engineering. Product development and engineering expenses consist primarily of salaries and related expenses for personnel, fees to outside contractors and consultants and the allocated cost of facilities. Product development and engineering increased 42% to $17.0 million for fiscal 1998 from $12.0 million for 1997. This increase of $5.0 million in product development and engineering expenses was primarily attributable to the following factors in the following proportions:

- approximately 45% to expenditures focused on the continued development of the @Home backbone to incorporate new telecommunications and server technologies; and,

- approximately 45% to efforts to incorporate Internet technologies into advanced digital set-top boxes.

We anticipate that product development and engineering costs will continue to increase during 1999 due in part to increased technology development efforts related to our broadband network, including initial design and deployment costs associated with our AT&T backbone capacity agreement, and advanced digital set-top boxes.

Sales and Marketing. Sales and marketing expenses consist primarily of salaries, commissions and promotional expenses. Sales and marketing expenses increased 52% to $18.1 million for 1998 from $11.9 million for 1997. This increase of $6.2 million in sales and marketing expenses was primarily attributable to the following factors in the following proportions:

- approximately 40% to additional spending to support the expansion of @Work services; and,

- approximately 25% to advertising and content partnering arrangements and regional deployments of the @Home service.

We expect that sales and marketing costs will continue to increase in 1999 primarily due to personnel and other costs related to:

- @Home and @Work subscriber acquisition, including expanded retail initiatives;

- our efforts to increase advertising and content partnering arrangements; and

- expanded product offerings, including delivery of the @Home service through set-top devices.

General and Administrative. General and administrative expenses consist primarily of administrative and executive personnel costs, fees for professional services and the costs of computer systems to support our operations. General and administrative expenses increased by 17% to $12.4 million for 1998 from $10.6 million for 1997. This increase was caused by hiring additional finance, human resource and facilities personnel. To support our expected growth, we anticipate that costs in this area will continue to grow significantly during 1999.

Purchased in-process research and development. In the fourth quarter of 1998, we acquired Narrative for a total purchase consideration of $93.8 million, and we acquired Full Force for a total purchase consideration of $1.7 million. In connection with these acquisitions, in the fourth quarter of 1998, we recorded purchased in-process research and development charges to operations of approximately $2.7 million for Narrative and $58,000 for Full Force. These amounts represent an allocation of purchase price to development projects for the creation of new technologies that will:

- allow our subscribers to use their existing television sets simultaneously for viewing regular television programming, viewing the Internet and making telephone calls;

- make Internet advertising more interesting for the viewer; and

- assist advertisers in tracking various advertising metrics.

As of the date that we valued the Narrative technology, we estimated that 13% of the research and development effort had been completed at the date of the Narrative acquisition and expect the remaining 87% of the research and development efforts to require approximately 5 months to complete. As of the date that we valued the Full Force technology, we estimated that 33% of the research and development effort had been completed at the date of the Full Force acquisition and expect the remaining 67% of the research and development

efforts
to require approximately two months to complete. Although we expect that we
will
successfully develop technologies related to the purchased in-process research and development, substantial additional development of these technologies is required, and these technologies may not achieve commercial viability. The efforts required to develop technologies related to the purchased in-process research and development principally relate to the completion of planning, designing, prototyping, verification and testing activities required to establish that products associated with the technologies can be successfully introduced.

The value of the purchased in-process research and development was determined by estimating the projected net cash flows related to products associated with the new technologies, including costs to complete the development of the technologies and the future revenues that may be earned
upon
commercialization of the products. We then discounted these cash flows back to their net present value.

If we do not successfully deploy commercially-accepted products based on the acquired in-process technology, our operating results could be adversely affected in future periods.

Cost and Amortization of Distribution Agreements. Cost and amortization
of
distribution agreements consist primarily of charges and amortization related towarrants to purchase our common stock issued in connection with distribution agreements with certain of our cable partners and their future performance in connection with distributing our services. Cost and amortization of
distribution
agreements increased from $9.2 million in 1997 to $101.4 million in 1998, primarily as a result of the amortization of the cost of the Cablevision distribution agreement and charges associated with the successful achievement
of
certain performance milestones by other cable partners. We will incur approximately $13.6 million per quarter for amortization of the Cablevision distribution agreement through the first half of 2002, and this amount would increase if TCI transfers certain cable systems to Cablevision. In addition, total cost and amortization of distribution agreements could increase significantly if our cable partners achieve certain performance milestones.

Interest Income, Net. Interest income, net represents interest and
realized
gains earned on our cash and short-term cash investments and available-for-
sale
investments less interest expense on debt obligations, including our
convertible
subordinated debentures. Interest income, net was $6.4 million for 1998 and
$3.0
million for 1997. Interest income for 1998 was $8.4 million compared to $4.2 million for 1997. This increase was principally due to the increased cash balances available to invest following our Series A common stock offering in August 1998. Interest expense for 1998 was $2.0 million compared to $1.2
million
for 1997. This increase was due primarily to increases in capital lease obligations associated with our leasing of capital equipment. We anticipate interest expense will increase sharply in 1999 due to the interest obligations of our convertible subordinated debentures.

Income Taxes. Due to operating losses incurred since inception, we did
not
record a provision for income taxes in 1998 or 1997. At December 31, 1998, we had net deferred tax assets of $92.5 million relating principally to tax net

operating loss carryforwards and the temporary difference relating to the cost and amortization of distribution agreements recorded in 1998 and 1997. Realization of deferred tax assets is dependent on future earnings, if any, the timing and amount of which are uncertain. A valuation allowance has been recorded for the net deferred tax assets as of December 31, 1998 and 1997, since we lack an earnings history. Accordingly, we have not recorded any income tax benefit for net losses incurred for any period from inception through December 31, 1998. See Note 9 of Notes to Consolidated Financial Statements.

Net Loss. Our net loss before the costs and amortization for distribution agreements and purchased in-process research and development was $40.0 million for 1998 and $46.5 million for 1997. Our net loss for 1998 of $144.2 million includes costs and amortization of $101.4 million related to certain distribution agreements and $2.8 million related to purchased in-process research and development from our acquisitions of Narrative and Full Force. The decrease in net loss before the costs and amortization for distribution agreements and purchased in-process research and development was primarily a result of additional revenues, partially offset by the additional expenses attributable to the expansion of our @Home and @Work services. We anticipate that our net loss, excluding non-cash charges relating to amortization of the distribution agreement, performance warrants earned by cable operators and amortization of amounts related to mergers and acquisitions, will continue to decline during 1999 as revenues grow at a faster rate than expenses. However, revenues could grow at a slower rate than costs and expenses. See "Risk Factors -- Our operating results may fluctuate significantly."

If our merger with Excite closes, we expect to record charges for the amortization of goodwill and other intangible assets in our statement of operations estimated at approximately $1,700 million annually for four years from the date of the acquisition. This estimate is based on a preliminary valuation and is subject to change pending a final analysis of the total purchase cost and the fair value of the assets acquired and liabilities assumed. The impact of such changes could be material.

YEAR ENDED DECEMBER 31, 1997 COMPARED TO YEAR ENDED DECEMBER 31, 1996

Revenues

	1997	CHANGE 1996
	(DOLLARS IN THOUSANDS)	
Revenues	$7,437	1,000% $676

Revenues for 1997 equaled $7.4 million, an increase of $6.7 million over revenues of $676,000 for 1996. Revenues from related parties as a percentage of total revenues were approximately 40% for 1997 and 94% for 1996. For 1997, revenues from @Work services in the United States and from the @Home service in Canada contributed significantly to our total revenues, especially during the second half of the year.